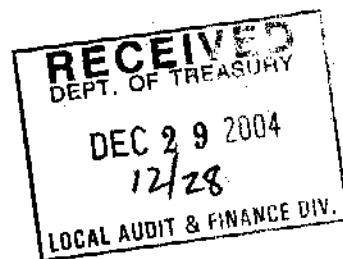


Village of Grass Lake
38-3040
Financial Statements
And Independent Auditors' Report

Year Ended February 29, 2004



Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

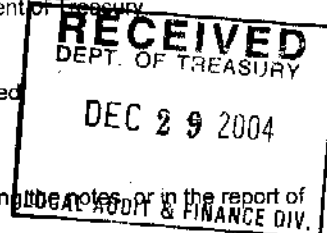
| | | | |
|---|--------------------------------|---|--------------------------|
| Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other | | Local Government Name Village of Grass Lake | County Jackson |
| Audit Date 2/29/04 | Opinion Date 8/25/04 | Date Accountant Report Submitted to State: | |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes or in the report of comments and recommendations.



You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

| | Enclosed | To Be Forwarded | Not Required |
|---|----------|-----------------|--------------|
| The letter of comments and recommendations. | ✓ | | |
| Reports on individual federal financial assistance programs (program audits). | | | ✓ |
| Single Audit Reports (ASLGU). | | | ✓ |

| | | | |
|--|------------------------|--------------------|---------------------|
| Certified Public Accountant (Firm Name) Willis & Jurasek, P.C. | | | |
| Street Address 2545 Spring Arbor Road | City Jackson | State MI | ZIP 49203 |
| Accountant Signature <i>Willis & Jurasek, P.C.</i> | | Date | |

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Independent Auditors' Report

Honorable Mayor and Board of Trustees
Village of Grass Lake
Jackson County, Michigan

We have audited the accompanying general purpose financial statements of the Village of Grass Lake as of and for the year ended February 29, 2004, as listed in the table of contents. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Village of Grass Lake as of February 29, 2004, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 25, 2004, on our consideration of the City's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and individual fund and account group financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the Village of Grass Lake. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.,

August 25, 2004

WILLIS & JURASEK, P.C.

2545 Spring Arbor Road
Post Office Box 39
Jackson, Michigan 49204-0039



**Reporting Based on an Audit of Financial Statements Performed In
Accordance with Government Auditing Standards**

Honorable Mayor and Board of Trustees
Village of Grass Lake
Jackson County, Michigan

We have audited the financial statements of the Village of Grass Lake of and for the year ended February 29, 2004, and have issued our report thereon dated August 25, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village of Grass Lake's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Grass Lake's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Village of Grass Lake in a separate letter dated August 25, 2004.

This report is intended solely for the information of the City Council, management and state agencies, and is not intended to be and should not be used by anyone other than those specified.

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

August 25, 2004

WILLIS & JURASEK, P.C.

2545 Spring Arbor Road
Post Office Box 39
Jackson, Michigan 49204-0039

Village of Grass Lake
Combined Balance Sheet
All Fund Types and and Account Groups, and Discretely Presented Component Units
February 29, 2004

| Account Groups | (Memorandum Only) | Component Unit | (Memorandum Only) |
|----------------------|-----------------------|--------------------------------------|----------------------|
| Fixed Asset Group | Primary Government | Downtown Development Authority | Reporting Entity |
| \$ | - \$ | 1,039,685 \$ | 72,580 \$ |
| | 51,005 | - | 51,005 |
| | 14,748 | - | 14,748 |
| | 390,034 | - | 390,034 |
| | 29,561 | 61,222 | 90,783 |
| | 20,290 | - | 20,290 |
| | - | 21,329 | 21,329 |
| | 37,202 | - | 37,202 |
| | 21,263 | - | 21,263 |
| 2,986 | 4,958,222 | - | 4,958,222 |
| \$ 2,986 | \$ 6,562,010 | \$ 155,131 | \$ 6,717,141 |
| | | | |
| \$ | - \$ | 15,111 \$ | - \$ |
| | 20,290 | - | 20,290 |
| | 18,213 | - | 18,213 |
| | 21,329 | - | 21,329 |
| | 63,429 | - | 63,429 |
| | 37,202 | - | 37,202 |
| | 3,770,000 | - | 3,770,000 |
| | 3,945,574 | - | 3,945,574 |
| | | | |
| | 2,022,666 | - | 2,022,666 |
| 2,986 | 2,986 | - | 2,986 |
| | 52,740 | - | 52,740 |
| | 538,044 | 155,131 | 693,175 |
| 2,986 | 2,616,436 | 155,131 | 2,771,567 |
| \$ 2,986 | \$ 6,562,010 | \$ 155,131 | \$ 6,717,141 |

See Notes to Financial Statements

Village of Grass Lake
Combined Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Fund Types and Discretely Presented Component Units
Year Ended February 29, 2004

| | <u>Governmental Fund Types</u> | | <u>Total (Memorandum Only)</u> | <u>Component Unit Downtown Development Authority</u> | <u>Total (Memorandum Only)</u> |
|---|--------------------------------|----------------------------|--|--|--|
| | <u>General</u> | <u>Special Revenue</u> | <u>Primary Government</u> | | <u>Reporting Entity</u> |
| Revenues: | | | | | |
| Taxes and penalties | \$ 146,517 | \$ - | \$ 146,517 | \$ 83,078 | \$ 229,595 |
| Licenses and permits | 1,138 | - | 1,138 | - | 1,138 |
| Intergovernmental | 110,920 | 90,337 | 201,257 | - | 201,257 |
| Charges for services | 6,832 | 14,775 | 21,607 | - | 21,607 |
| Fines and forfeitures | 1,452 | - | 1,452 | - | 1,452 |
| Interest and other revenue | 12,412 | 933 | 13,345 | 504 | 13,849 |
| Total revenues | <u>279,271</u> | <u>106,045</u> | <u>385,316</u> | <u>83,582</u> | <u>468,898</u> |
| Expenditures: | | | | | |
| General government | 103,292 | - | 103,292 | 1,611 | 104,903 |
| Public safety | 52,252 | 14,779 | 67,031 | - | 67,031 |
| Highways and streets | 30,611 | 78,349 | 108,960 | - | 108,960 |
| Sanitation | 7,273 | - | 7,273 | - | 7,273 |
| Community development | - | - | - | 3,415 | 3,415 |
| Total expenditures | <u>193,428</u> | <u>93,128</u> | <u>286,556</u> | <u>5,026</u> | <u>291,582</u> |
| Revenues Over (Under) Expenditures | <u>85,843</u> | <u>12,917</u> | <u>98,760</u> | <u>78,556</u> | <u>177,316</u> |
| Other Financing Sources (Uses): | | | | | |
| Operating transfers in | - | 35,000 | 35,000 | - | 35,000 |
| Operating transfers out | (25,000) | - | (25,000) | (45,000) | (70,000) |
| Total other financing sources (uses) | <u>(25,000)</u> | <u>35,000</u> | <u>10,000</u> | <u>(45,000)</u> | <u>(35,000)</u> |
| Net Changes in Fund Balances | 60,843 | 47,917 | 108,760 | 33,556 | 142,316 |
| Fund Balances - Beginning of Year | <u>308,149</u> | <u>121,135</u> | <u>429,284</u> | <u>121,575</u> | <u>550,859</u> |
| Fund Balances - End of Year | <u>\$ 368,992</u> | <u>\$ 169,052</u> | <u>\$ 538,044</u> | <u>\$ 155,131</u> | <u>\$ 693,175</u> |

Village of Grass Lake
Combined Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund and Special Revenue Funds
Year Ended February 29, 2004

| | General Fund | | | Special Revenue Funds | | |
|--|-------------------|-------------------|--|-----------------------|-------------------|--|
| | Budget | Actual | Variance Favorable (Unfavorable) | Budget | Actual | Variance Favorable (Unfavorable) |
| Revenues: | | | | | | |
| Taxes and penalties | \$ 147,965 | \$ 146,517 | \$ (1,448) | \$ - | \$ - | \$ - |
| Licenses and permits | 1,113 | 1,138 | 25 | - | - | - |
| Intergovernmental | 100,018 | 110,920 | 10,902 | 94,846 | 90,337 | (4,509) |
| Charges for services | 6,432 | 6,832 | 400 | 15,000 | 14,775 | (225) |
| Fines and forfeitures | 1,404 | 1,452 | 48 | - | - | - |
| Interest and other revenue | 12,001 | 12,412 | 411 | 900 | 933 | 33 |
| Total Revenues | <u>268,933</u> | <u>279,271</u> | <u>10,338</u> | <u>110,746</u> | <u>106,045</u> | <u>(4,701)</u> |
| Expenditures: | | | | | | |
| General government | 115,853 | 103,292 | 12,561 | - | - | - |
| Public safety | 53,686 | 52,252 | 1,434 | 17,075 | 14,779 | 2,296 |
| Highways and streets | 33,700 | 30,611 | 3,089 | 109,590 | 78,349 | 31,241 |
| Sanitation | 8,000 | 7,273 | 727 | - | - | - |
| Total expenditures | <u>211,239</u> | <u>193,428</u> | <u>17,811</u> | <u>126,665</u> | <u>93,128</u> | <u>33,537</u> |
| Revenue Over (Under) Expenditures | <u>57,694</u> | <u>85,843</u> | <u>28,149</u> | <u>(15,919)</u> | <u>12,917</u> | <u>28,836</u> |
| Other Financing Sources (Uses): | | | | | | |
| Operating transfers in | - | - | - | 35,000 | 35,000 | - |
| Operating transfers out | (25,000) | (25,000) | - | - | - | - |
| Total other financing sources (uses) | <u>(25,000)</u> | <u>(25,000)</u> | <u>-</u> | <u>35,000</u> | <u>35,000</u> | <u>-</u> |
| Net Changes in Fund Balances | <u>32,694</u> | <u>60,843</u> | <u>28,149</u> | <u>19,081</u> | <u>47,917</u> | <u>28,836</u> |
| Fund Balances - Beginning of Year | <u>308,149</u> | <u>308,149</u> | <u>-</u> | <u>121,135</u> | <u>121,135</u> | <u>-</u> |
| Fund Balances - End of Year | <u>\$ 340,843</u> | <u>\$ 368,992</u> | <u>\$ 28,149</u> | <u>\$ 140,216</u> | <u>\$ 169,052</u> | <u>\$ 28,836</u> |

See Notes to Financial Statements

Village of Grass Lake
Combined Statement of Revenues, Expenses and Changes
in Retained Earnings/Fund Balance
Proprietary Fund Types and Similar Trust Funds
Year Ended February 29, 2004

| | Proprietary Fund Types | | Total (Memorandum Only) |
|--|---------------------------|---------------------|-------------------------------|
| | Enterprise | Internal Service | |
| Operating Revenues: | | | |
| Charges for services | \$ 417,553 | \$ - | \$ 417,553 |
| Rental income | - | 73,816 | 73,816 |
| Other operating revenue | 141,700 | - | 141,700 |
| Total operating revenues | <u>559,253</u> | <u>73,816</u> | <u>633,069</u> |
| Operating Expenses | <u>373,791</u> | <u>53,190</u> | <u>426,981</u> |
| Operating Income | 185,462 | 20,626 | 206,088 |
| Nonoperating Revenues (Expenses): | | | |
| Interest earnings | 5,098 | - | 5,098 |
| Interest expense | (58,952) | (6,101) | (65,053) |
| Operating transfers in | 45,000 | 2,000 | 47,000 |
| Operating transfers out | - | (12,000) | (12,000) |
| Total non-operating revenue (expense) | <u>(8,854)</u> | <u>(16,101)</u> | <u>(24,955)</u> |
| Net Income | 176,608 | 4,525 | 181,133 |
| Retained Earnings/Fund Balances - Beginning of Year | <u>(241,079)</u> | <u>112,686</u> | <u>(128,393)</u> |
| Retained Earnings/Fund Balances - End of Year | <u>\$ (64,471)</u> | <u>\$ 117,211</u> | <u>\$ 52,740</u> |

See Notes to Financial Statements

Village of Grass Lake
Combined Statement of Cash Flows
All Proprietary Fund Types
Year Ended February 29, 2004

| | Enterprise Funds | Internal Service Funds | Total |
|--|---------------------|------------------------------|-------------------|
| Cash Flows From Operating Activities: | | | |
| Net Income (loss) | \$ 176,808 | \$ 4,525 | \$ 181,133 |
| Adjustment to reconcile net income to cash provided by operating activities | | | |
| Depreciation | 110,930 | 21,415 | 132,345 |
| Change in accounts receivable | (5,549) | - | (5,549) |
| Change in inventories | 33,746 | - | 33,746 |
| Change in accounts payable | 2,255 | 1,359 | 3,614 |
| Change in interfund payable | - | 5,972 | 5,972 |
| Net cash provided by operating activities | <u>317,990</u> | <u>33,271</u> | <u>351,261</u> |
| Cash Flows From Noncapital Financing Activities: | | | |
| Transfers in | 45,000 | 2,000 | 47,000 |
| Transfers out | - | (12,000) | (12,000) |
| Net cash provided by noncapital financing activities | <u>45,000</u> | <u>(10,000)</u> | <u>35,000</u> |
| Cash Flows From Capital and Related Financing activities | | | |
| Collections on advance to other funds | 7,296 | - | 7,296 |
| Payments on advance to other funds | - | (7,296) | (7,296) |
| Proceeds from note payable | - | 24,299 | 24,299 |
| Principal payment on bonds and notes | (215,000) | (12,883) | (227,883) |
| Interest paid on bonds and notes | (58,952) | (6,101) | (65,053) |
| Collections on special assessments | 41,467 | - | 41,467 |
| Contributions from customers | 27,282 | - | 27,282 |
| Net cash provided by capital and related financing activities | <u>(197,907)</u> | <u>(1,981)</u> | <u>(199,888)</u> |
| Cash Flows From Investing Activities: | | | |
| Interest received on investments | 5,098 | - | 5,098 |
| Net Increase in Cash and Cash Equivalents | 170,181 | 21,280 | 191,471 |
| Cash and Cash Equivalents - Beginning of Year | <u>285,369</u> | <u>43,556</u> | <u>328,915</u> |
| Cash and Cash Equivalents - End of Year | <u>\$ 455,540</u> | <u>\$ 64,846</u> | <u>\$ 520,386</u> |

See Notes to Financial Statements.

Village of Grass Lake
Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of Village of Grass Lake (the "Village" or "government") conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

Reporting Entity

The Village was incorporated under the provisions Act of 1895, as amended (General Law Village). The Village operates under a Council form of government and provides various services as authorized by its charter. As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the Village (the primary government) and its component unit. The component unit discussed below is included in the Village's reporting entity because of the significance of its operational or financial relationship with the Village.

Discretely Presented Component Units – The component unit column in the combined financial statements includes the financial data of the Village's component unit. This unit is reported in a separate column to emphasize that it is legally separate from the Village.

Component Unit

Downtown Development Authority – The members of the governing board of the Downtown Development Authority are appointed by the Village Council. The budgets and expenditures of the Downtown Development Authority must be approved by the Village Council. The Village also has the ability to significantly influence operations of the Downtown Development Authority. The Downtown Development Authority uses governmental fund type accounting.

Measurement Focus, Basis of Accounting and Basis of Presentation

The accounts of the government are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

The government has the following fund types and account groups:

Governmental Funds

Are used to account for the Village's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The government considers all revenues available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Village of Grass Lake
Notes to Financial Statements

1. Summary of Significant Accounting Policies (Continued)

Governmental Funds (Continued)

Property taxes, franchise taxes, licenses, interest and special assessments are susceptible to accrual. Other receipts and taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

Governmental funds include the following fund types:

General Fund – The general fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds account for revenue sources that are legally restricted to expenditure for specific purposes (not including expendable trusts or major capital projects).

Debt Service Funds - Debt Service Funds account for the servicing of general long-term debt not being financed by proprietary or nonexpendable trust funds.

Proprietary Funds

Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The government applies all applicable FASB pronouncements issued prior to November 30, 1989, in accounting and reporting for its proprietary operations. Proprietary funds include the following fund types:

Enterprise Funds – Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Internal Service Funds – Internal service funds account for operations that provide services to other departments or agencies of the government, or to other governments, on a cost-reimbursement basis.

Account Groups

The general fixed assets account group is used to account for fixed assets not accounted for in proprietary or trust funds. The general long-term debt account group is used to account for general long-term debt and certain other liabilities that are not specific liabilities of proprietary or trust funds.

Village of Grass Lake
Notes to Financial Statements

1. Summary of Significant Accounting Policies (Continued)

Budgetary Accounting

Operating budgets are adopted for all governmental fund types each fiscal year on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual revenues and expenditures. Reported budgeted amounts are as originally adopted or as amended by the Village Council. All budget appropriations lapse at year end. The legal level of control is at the activity level. The Village does not utilize a formal encumbrance system.

Cash and Cash Equivalents

Cash and cash equivalents includes amounts in demand deposits as well as short-term investments with an original maturity date within three months of the date acquired by the government.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Due to and From Other Funds

Interfund receivables and payables arise from Interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

Inventories

Inventories are valued at cost using the first-in/first-out (FIFO) method, which approximates fair value. The cost of governmental fund-type inventories are recorded as expenditures when purchases.

Fixed Assets

General fixed assets are recorded as expenditures in the applicable funds at the time of purchase and are accounted for in the General Fixed Asset Group of Accounts. All fixed assets are recorded at cost or, if donated, at their estimated fair value on the date donated. No depreciation has been provided on general fixed assets.

Fixed assets in proprietary funds are recorded at cost and depreciation is provided in amounts sufficient to depreciate the cost of fixed assets over their estimated service lives on a straight-line basis. The following estimated useful lives are used:

| | <u>YEARS</u> |
|------------------------------------|--------------|
| Equipment | 5 |
| Building and building improvements | 20 |
| Water/Sewer system | 50 |

Village of Grass Lake
Notes to Financial Statements

1. Summary of Significant Accounting Policies (Continued)

Long-Term Debt

Long-term debt obligations of the Village, which are expected to be repaid out of general governmental revenues, are recorded in the General Long-Term Debt Account Group. Obligations that are expected to be repaid out of proprietary fund revenues are recorded as liabilities of the respective funds.

Fund Equity

Contributed capital is recorded in proprietary funds that have received capital contributions from customers or other funds. The unreserved, undesignated fund balances of governmental funds represent the amount available for future appropriations. Designated fund balance denotes that portion of fund equity for which the Village has made tentative plans. Reserved retained earnings for proprietary funds represents the net assets that have been identified for specific purposes.

Property Tax Revenue

Property tax revenue is normally recognized in the year for which taxes have been levied, provided they are collectible during that year or within 60 days following that year's end. Approximately \$14,000 in delinquent property taxes from the Village's 2003 tax levy are included in taxes receivable at February 28, 2004, and will be received from the County after February 29, 2004. These delinquent taxes, however, are reflected as revenues in 2003/2004 since they represent taxes levied as well as budgeted for 2003/2004.

Interfund Transactions

During the course of normal operations, the Village has numerous transactions between funds, including expenditures and transfers of resources to provide services. The accompanying financial statements generally reflect such transactions as operating transfers. Operating subsidies are also recorded as operating transfers.

The internal service funds are used to record charges for services to all Village departments and funds as operating revenues. All Village funds record these payments to the internal service funds as operating expenditures/expenses.

Pensions

The Village does not provide a pension plan for either its full or part-time employees.

Compensated Absences

Village personnel policies provide full-time employees with one week of vacation leave after one year of employment; two weeks after two years; and three weeks after five years. Sick leave is granted at the rate of one day per month, limited to an accumulated of thirty days. Neither vacation nor sick time are recorded until paid. Current accumulated leave is immaterial.

Village of Grass Lake
Notes to Financial Statements

2. Fund Equity (Deficits)

At February 29, 2004, the Sewer Enterprise Fund had a deficit retained earnings of \$275,681. It is anticipated that the deficit will be eliminated through a combination of future service charges and operating funds.

3. Cash and Cash Equivalents

A summary of the caption cash and cash equivalents on the combined balance sheet, including the component unit amounts, consist of the following depository accounts by type:

| | |
|-------------------------|--------------------|
| Cash in demand accounts | \$ 530,997 |
| Cash on hand | 120 |
| Money market fund | <u>581,148</u> |
| | <u>\$1,112,265</u> |

The Village of Grass Lake is authorized by the Council to invest surplus funds in the following:

- Bonds, securities other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- Banker's acceptances of United States banks.
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rates as investment grade by at least one standard rating service.
- Mutual funds registered under the investment company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by Public Act 20 as amended.

A0000t February 29, 2004, the carrying amount of the Village's deposits were classified as follows:

| | <u>Carrying Amount</u> | <u>Bank Balance</u> |
|-----------------------------|----------------------------|-------------------------|
| Insured (FDIC) | \$ 105,429 | \$ 105,429 |
| Uninsured, uncollateralized | <u>1,006,716</u> | <u>990,616</u> |
| | <u>\$1,112,145</u> | <u>\$1,096,045</u> |

4. Property Taxes

The Village property tax is levied each July 1 on the assessed valuation of property located in the Village as of the preceding December 31, the lien date. Assessed values are established annually by the County and are equalized by the State at an estimated 50% of current market value. Real and personal property in the Village for the 2003 levy was assessed and equalized at \$21,115,323, representing 50% of estimated current market value. The Village operating tax rate for the 2003 levy was 8.0007 mills.

Village of Grass Lake
Notes to Financial Statements

5. Fixed Assets

Activity in the General Fixed Assets Account Group of the primary government for the year ended February 29, 2004 was as follows:

| | |
|-------------------|-----------------------|
| | Computer Equipment |
| Beginning balance | \$ 2,986 |
| Additions | <u>0</u> |
| Ending balance | <u>\$ 2,986</u> |

The following is a summary of proprietary fund type fixed assets at February 29, 2004:

| | Enterprise Funds | Internal Service Fund |
|--------------------------------|---------------------|--------------------------|
| Land | \$ 0 | \$ 49,792 |
| Building | 0 | 165,494 |
| Systems and improvements | 5,432,841 | 0 |
| Machinery and equipment | 31,120 | 169,770 |
| Less: Accumulated depreciation | <u>(684,626)</u> | <u>(209,155)</u> |
| Totals | <u>\$4,779,335</u> | <u>\$ 175,901</u> |

6. Long -Term Debt

The long-term debt of the Village is summarized as follows:

| | Balance 03/01/03 | Additions | Reductions | Balance 2/29/04 |
|--|---------------------|------------------|---------------------|--------------------|
| Enterprise Fund – Sewer Fund: | | | | |
| 2.0% 1993 Michigan State Revolving Loan Fund Program bonds | \$1,735,000 | \$ - | \$ (130,000) | \$1,605,000 |
| Enterprise Fund – Water Fund: | | | | |
| 2.5% 2002 Michigan State Revolving Loan Fund Program Bonds | 2,255,000 | - | (90,000) | 2,165,000 |
| Internal Service Funds – Equipment Pool Fund 4.5% Vehicle Loan | - | 24,299 | (8,402) | 15,897 |
| Internal Service Funds: Building and Grounds Maintenance Fund – 8.5% 1977 Land Contract | <u>52,013</u> | <u>-</u> | <u>(4,481)</u> | <u>47,532</u> |
| Total long-term debt | <u>\$4,042,013</u> | <u>\$ 24,299</u> | <u>\$ (232,883)</u> | <u>\$3,833,429</u> |

Village of Grass Lake
Notes to Financial Statements

6. Long -Term Debt (Continued)

The annual requirements on this debt as of February 29, 2004, including interest payments of \$386,972, are as follows:

| | <u>Enterprise</u> | <u>Internal Service</u> | <u>Total</u> |
|---------------------------|--------------------|-----------------------------|--------------------|
| Years Ending February 28: | | | |
| 2005 | \$ 305,063 | \$ 18,092 | \$ 323,155 |
| 2006 | 310,025 | 18,088 | 328,113 |
| 2007 | 304,950 | 9,600 | 314,550 |
| 2008 | 304,825 | 9,600 | 314,425 |
| 2009 | 309,600 | 9,600 | 319,200 |
| Thereafter | <u>3,000,932</u> | <u>12,352</u> | <u>3,013,284</u> |
| | 4,535,395 | 77,332 | 4,612,727 |
| Less interest | <u>765,395</u> | <u>13,903</u> | <u>779,298</u> |
| Total long-term debt | <u>\$3,770,000</u> | <u>\$ 63,429</u> | <u>\$3,833,429</u> |

7. Interfund Receivables and Payable

Interfund balances at February 29, 2004, are as follows:

| | <u>Interfund Receivables</u> | <u>Interfund Payables</u> |
|---------------------------------------|----------------------------------|-------------------------------|
| Advance from/to Other Funds: | | |
| Enterprise Funds: | | |
| Sewer fund | \$ 37,202 | \$ - |
| Internal Service Fund: | | |
| Building and Grounds Maintenance Fund | - | 37,202 |
| | <u>\$ 37,202</u> | <u>\$ 37,202</u> |

Interfund balances at February 29, 2004, are as follows:

| | <u>Interfund Receivables</u> | <u>Interfund Payables</u> |
|---|----------------------------------|-------------------------------|
| Due from/to Primary Government and Component Unit: | | |
| Primary Government: | | |
| General Fund | \$ - | \$ 21,329 |
| Component Unit: | | |
| Downtown Development Authority | 21,329 | - |
| | <u>\$ 21,329</u> | <u>\$ 21,329</u> |

The Building and Grounds maintenance Internal Service Fund had a negative cash balance in the pooled cash account as of February 29, 2004 of \$20,290. The overdraft on the cash pool is reported as Interfund payable in the Building and Grounds Maintenance Internal Service Fund and the related Interfund receivable is recorded in the General Fund.

Village of Grass Lake
Notes to Financial Statements

8. Contributed Capital

The contributed capital of the Village is summarized as follows:

| | Balance <u>03/01/03</u> | <u>Additions</u> | Balance <u>02/29/04</u> |
|--------------------------------|----------------------------|------------------|----------------------------|
| Enterprise Fund – Sewer Fund: | | | |
| Contributions from customers | \$1,941,213 | \$ 27,282 | \$1,968,495 |
| Contributions from other funds | <u>54,171</u> | <u>0</u> | <u>54,171</u> |
| | <u>\$1,995,384</u> | <u>\$ 27,282</u> | <u>\$2,022,666</u> |

9. Operating Transfers

Following is a summary of transfers between funds of the Village for the year ended February 29, 2004. These transfers are part of the normal budgetary process and are necessary to provide resources in appropriate funds as designated by the Council:

| | <u>Operating Transfers</u> | |
|---|----------------------------|------------------|
| | <u>In</u> | <u>Out</u> |
| Operating Transfers from/to Other Funds: | | |
| General Fund | \$ - | \$ 25,000 |
| Special Revenue Funds – Local Street Fund | 35,000 | - |
| Internal Service Fund – Village Hall and Grounds | 2,000 | - |
| Equipment Pool | <u>-</u> | <u>12,000</u> |
| | <u>\$ 37,000</u> | <u>\$ 37,000</u> |
| Transfers from/to Primary Government and Component Unit: | | |
| Primary Government: | | |
| Sewer Enterprise Fund | \$ 45,000 | \$ - |
| Component Unit: | | |
| Downtown Development Authority | <u>-</u> | <u>45,000</u> |
| | <u>\$ 45,000</u> | <u>\$ 45,000</u> |

10. Shared Services Agreements

The Jackson County Sheriff Department provides law enforcement services to the Village and its residents. Under this agreement, the Village is billed monthly on an hourly basis for the services provided.

Grass Lake Township provides fire protection services to the Village and its residents, which is funded through a tax levy on Village and Township property owners. The Township levies and collects all of these property taxes.

Village of Grass Lake
Notes to Financial Statements

11. Segment Information For Enterprise Funds

The Village maintains two Enterprise Funds, which provide sewer and water services (utility segment). Segment information for the year ended February 29, 2004 is follows:

| | <u>Sewer</u> | <u>Water</u> | <u>Total</u> |
|---------------------------------|--------------|--------------|--------------|
| Operating revenue | \$ 333,640 | \$ 225,613 | \$ 559,253 |
| Depreciation | 62,787 | 48,143 | 110,930 |
| Operating income (loss) | 86,901 | 98,561 | 185,462 |
| Transfer in from component unit | 45,000 | - | 45,000 |
| Net loss | 102,888 | 73,720 | 176,608 |
| Capital contributions | 27,282 | - | 27,282 |
| Fixed asset additions | - | - | - |
| Working capital | 362,395 | (16,125) | 346,270 |
| Total assets | 2,477,000 | 2,302,335 | 4,779,335 |
| Bonds payable | 1,605,000 | 2,165,000 | 3,770,000 |
| Total equity | 1,746,989 | 2,377,738 | 1,985,195 |

12. Risk Managment

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended February 29, 2004, the Village carried commercial insurance to cover all risks of losses. The Village had no settled claims resulting from these risks that exceeded their commercial coverage in any of the pas three fiscal years.

Supplemental Information

Village of Grass Lake
Statement of Revenue, Expenditures and Changes -
in Fund Balances Budget and Actual
General Fund
Year Ended February 29, 2004

| | <u>Budget</u> | <u>Actual</u> | <u>Variance Favorable (Unfavorable)</u> |
|-----------------------------------|-------------------|-------------------|---|
| Revenues: | | | |
| Taxes and Penalties | <u>\$ 147,965</u> | <u>\$ 146,517</u> | <u>\$ (1,448)</u> |
| Licenses and Permits | <u>1,113</u> | <u>1,138</u> | <u>25</u> |
| Intergovernmental | | | |
| Sales tax revenue sharing | 99,181 | 110,083 | 10,902 |
| Liquor tax | <u>837</u> | <u>837</u> | <u>-</u> |
| Total intergovernmental | <u>100,018</u> | <u>110,920</u> | <u>10,902</u> |
| Charges for Services | <u>6,432</u> | <u>6,832</u> | <u>400</u> |
| Fines and Forfeitures | <u>1,404</u> | <u>1,452</u> | <u>48</u> |
| Interest and other revenue | | | |
| Interest | 10,501 | 10,953 | 452 |
| Other | <u>1,500</u> | <u>1,459</u> | <u>(41)</u> |
| Total interest and rentals | <u>12,001</u> | <u>12,412</u> | <u>411</u> |
| Total revenues | <u>268,933</u> | <u>279,271</u> | <u>10,338</u> |
| Expenditures: | | | |
| General Government | | | |
| Council | 22,645 | 21,005 | 1,640 |
| President | 4,004 | 3,861 | 143 |
| Manager | 9,300 | 11,308 | (2,008) |
| Clerk | 14,645 | 9,500 | 5,145 |
| Assessor | 355 | 355 | - |
| Treasurer | 14,093 | 10,129 | 3,964 |
| Elections | 1,086 | 859 | 227 |
| Unallocated | 23,550 | 22,243 | 1,307 |
| Building and grounds | <u>26,175</u> | <u>24,032</u> | <u>2,143</u> |
| Total general government | <u>115,853</u> | <u>103,292</u> | <u>12,561</u> |
| Public Safety | | | |
| Police | 47,000 | 46,922 | 78 |
| Planning | <u>6,686</u> | <u>5,330</u> | <u>1,356</u> |
| Total public safety | <u>53,686</u> | <u>52,252</u> | <u>1,434</u> |
| Highways and Streets | <u>33,700</u> | <u>30,611</u> | <u>3,089</u> |

Village of Grass Lake
Statement of Revenue, Expenditures and Changes -
in Fund Balances Budget and Actual
General Fund
Year Ended February 29, 2004

| | <u>Budget</u> | <u>Actual</u> | <u>Variance Favorable (Unfavorable)</u> |
|--|-------------------|-------------------|---|
| Expenditures (Continued): | | | |
| Sanitation | \$ 8,000 | \$ 7,273 | \$ 727 |
| Total expenditures | <u>211,239</u> | <u>193,428</u> | <u>17,811</u> |
| Revenue Over (Under) Expenditures | <u>57,694</u> | <u>85,843</u> | <u>28,149</u> |
| Other Financing Sources (Uses): | | | |
| Transfers out | <u>(25,000)</u> | <u>(25,000)</u> | <u>-</u> |
| Net Changes in Fund Balances | <u>32,694</u> | <u>60,843</u> | <u>28,149</u> |
| Fund Balances - Beginning of Year | <u>308,149</u> | <u>308,149</u> | <u>-</u> |
| Fund Balances - End of Year | <u>\$ 340,843</u> | <u>\$ 368,992</u> | <u>\$ 28,149</u> |

Village of Grass Lake
Combining Balance Sheet
Special Revenue Funds
February 29, 2004

| | Major Street | Local Street | Building Inspection Department | Total |
|---|------------------|------------------|--------------------------------------|-------------------|
| <u>Assets</u> | | | | |
| Cash and cash equivalents | \$ 80,170 | \$ 70,215 | \$ 7,412 | \$ 157,797 |
| Due from other governmental units | 13,032 | 3,586 | - | 16,618 |
| Total assets | <u>\$ 93,202</u> | <u>\$ 73,801</u> | <u>\$ 7,412</u> | <u>\$ 174,415</u> |
| <u>Liabilities and Fund Balances</u> | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 2,371 | \$ 2,992 | \$ - | \$ 5,363 |
| Total liabilities | <u>2,371</u> | <u>2,992</u> | <u>-</u> | <u>5,363</u> |
| Fund Balances: | | | | |
| Unreserved:undesignated | <u>90,831</u> | <u>70,809</u> | <u>7,412</u> | <u>169,052</u> |
| Total liabilities and fund balances | <u>\$ 93,202</u> | <u>\$ 73,801</u> | <u>\$ 7,412</u> | <u>\$ 174,415</u> |

Village of Grass Lake
Combining Statement of Revenues, Expenditures and
Changes in Fund Balance
Special Revenue Funds
Year Ended February 29, 2004

| | <u>Major Street</u> | <u>Local Street</u> | <u>Building Inspection Department</u> | <u>Total</u> |
|--|-------------------------|-------------------------|---|-------------------|
| Revenues: | | | | |
| State grants | \$ 70,624 | \$ 19,713 | \$ - | \$ 90,337 |
| Charges for services | - | - | 14,775 | 14,775 |
| Interest and rentals | 535 | 398 | - | 933 |
| Total revenues | <u>71,159</u> | <u>20,111</u> | <u>14,775</u> | <u>106,045</u> |
| Expenditures: | | | | |
| Public works | 41,809 | 36,540 | - | 78,349 |
| Public safety | - | - | 14,779 | 14,779 |
| Total expenditures | <u>41,809</u> | <u>36,540</u> | <u>14,779</u> | <u>93,128</u> |
| Revenue Over (Under) Expenditures | <u>29,350</u> | <u>(16,429)</u> | <u>(4)</u> | <u>12,917</u> |
| Other Financing Sources: | | | | |
| Operating transfer in | - | 32,000 | 3,000 | 35,000 |
| Net Change in Fund Balances | 29,350 | 15,571 | 2,996 | 47,917 |
| Fund Balances - Beginning of Year | <u>61,481</u> | <u>55,238</u> | <u>4,416</u> | <u>121,135</u> |
| Fund Balances - End of Year | <u>\$ 90,831</u> | <u>\$ 70,809</u> | <u>\$ 7,412</u> | <u>\$ 169,052</u> |

Village of Grass Lake
Statement of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual
Major Street Fund
Year Ended February 29, 2004

| | <u>Budget</u> | <u>Actual</u> | <u>Variance Favorable (Unfavorable)</u> |
|--|------------------|------------------|---|
| Revenues: | | | |
| State grants | \$ 65,846 | \$ 70,624 | \$ 4,778 |
| Interest and rentals | 500 | 535 | 35 |
| Total revenues | <u>66,346</u> | <u>71,159</u> | <u>4,813</u> |
| Expenditures: | | | |
| Highways and Streets: | | | |
| Maintenance | 23,475 | 20,309 | 3,166 |
| Traffic services | 3,600 | 3,188 | 412 |
| Snow and ice control | 16,600 | 12,422 | 4,178 |
| Administration | 11,700 | 5,890 | 5,810 |
| Total expenditures | <u>55,375</u> | <u>41,809</u> | <u>13,566</u> |
| Net Change in Fund Balances | <u>10,971</u> | <u>29,350</u> | <u>18,379</u> |
| Fund Balances - Beginning of Year | <u>61,481</u> | <u>61,481</u> | |
| Fund Balances - End of Year | <u>\$ 72,452</u> | <u>\$ 90,831</u> | <u>\$ 18,379</u> |

Village of Grass Lake
Statement of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual
Local Street Fund
Year Ended February 29, 2004

| | <u>Budget</u> | <u>Actual</u> | <u>Variance Favorable (Unfavorable)</u> |
|--|------------------|------------------|---|
| Revenues: | | | |
| State grants | 29,000 | 19,713 | (9,287) |
| Interest and rentals | 400 | 398 | (2) |
| Total Revenues | <u>29,400</u> | <u>20,111</u> | <u>(9,289)</u> |
| Expenditures: | | | |
| Highways and Streets: | | | |
| Maintenance | 26,115 | 20,974 | 5,141 |
| Traffic services | 500 | 65 | 435 |
| Snow and ice control | 15,700 | 9,928 | 5,772 |
| Administration | <u>11,900</u> | <u>5,573</u> | <u>6,327</u> |
| Total Expenditures | <u>54,215</u> | <u>36,540</u> | <u>17,675</u> |
| Revenue Over (Under) Expenditures | <u>(24,815)</u> | <u>(16,429)</u> | <u>8,386</u> |
| Operating Transfers: | | | |
| Operating transfers in | <u>32,000</u> | <u>32,000</u> | <u>-</u> |
| Net Change in Fund Balances | <u>7,185</u> | <u>15,571</u> | <u>8,386</u> |
| Fund Balances - Beginning of Year | <u>55,238</u> | <u>55,238</u> | <u>-</u> |
| Fund Balances - End of Year | <u>\$ 62,423</u> | <u>\$ 70,809</u> | <u>\$ 8,386</u> |

Village of Grass Lake
Combining Balance Sheet
Enterprise Funds
February 29, 2004

| | <u>Sewer</u> | <u>Water</u> | <u>Total</u> |
|--|---------------------|---------------------|---------------------|
| <u>Assets</u> | | | |
| Current Assets: | | | |
| Cash | \$ 402,967 | \$ 52,573 | \$ 455,540 |
| Accounts receivable | 28,175 | 22,830 | 51,005 |
| Special assessments, current portion | 33,115 | - | 33,115 |
| Advance to other funds, current portion | 9,126 | - | 9,126 |
| Inventories | 21,263 | - | 21,263 |
| Total current assets | <u>494,646</u> | <u>75,403</u> | <u>570,049</u> |
| Non-Current Assets: | | | |
| Special assessment receivables, net of current portion | 354,514 | - | 354,514 |
| Advance to other funds, net of current portions | 28,076 | - | 28,076 |
| Total non-current assets | <u>382,590</u> | <u>-</u> | <u>382,590</u> |
| Fixed Assets, Net | <u>2,477,000</u> | <u>2,302,335</u> | <u>4,779,335</u> |
| Total assets | <u>\$ 3,354,236</u> | <u>\$ 2,377,738</u> | <u>\$ 5,731,974</u> |
| <u>Liabilities and Fund Equity</u> | | | |
| Current Liabilities: | | | |
| Accounts payable | \$ 2,251 | \$ 1,528 | \$ 3,779 |
| Current portion of bonds payable | 130,000 | 90,000 | 220,000 |
| Total current liabilities | <u>132,251</u> | <u>91,528</u> | <u>223,779</u> |
| Long-Term Liabilities: | | | |
| Bonds payable | <u>1,475,000</u> | <u>2,075,000</u> | <u>3,550,000</u> |
| Total liabilities | <u>1,607,251</u> | <u>2,166,528</u> | <u>3,773,779</u> |
| Fund Equity: | | | |
| Contributed capital | 2,022,666 | - | 2,022,666 |
| Total contributed capital | 2,022,666 | - | 2,022,666 |
| Retained Earnings (Deficit): | | | |
| Unreserved | (275,681) | 211,210 | (64,471) |
| Total retained earnings | <u>(275,681)</u> | <u>211,210</u> | <u>(64,471)</u> |
| Total fund equity | <u>1,746,985</u> | <u>211,210</u> | <u>1,958,195</u> |
| Total liabilities and fund equity | <u>\$ 3,354,236</u> | <u>\$ 2,377,738</u> | <u>\$ 5,731,974</u> |

Village of Grass Lake
Combining Statement of Revenues, Expenses and
Changes in Retained Earnings
Enterprise Funds
Year Ended February 29, 2004

| | <u>Sewer</u> | <u>Water</u> | <u>Total</u> |
|--|---------------------|-------------------|--------------------|
| Operating Revenues: | | | |
| Charges for services | \$ 251,940 | \$ 165,613 | \$ 417,553 |
| Connection fees | <u>81,700</u> | <u>60,000</u> | <u>141,700</u> |
| Total operating revenue | <u>333,640</u> | <u>225,613</u> | <u>559,253</u> |
| Operating Expenses | <u>246,739</u> | <u>127,052</u> | <u>373,791</u> |
| Operating Loss | <u>86,901</u> | <u>98,561</u> | <u>185,462</u> |
| Nonoperating Revenues (Expenses): | | | |
| Interest earned | 4,387 | 711 | 5,098 |
| Interest expense | (33,400) | (25,552) | (58,952) |
| Operating transfer in - component unit | <u>45,000</u> | <u>-</u> | <u>45,000</u> |
| Total nonoperating revenues (expenses) | <u>15,987</u> | <u>(24,841)</u> | <u>(8,854)</u> |
| Net Income | <u>102,888</u> | <u>73,720</u> | <u>176,608</u> |
| Retained Earnings (Deficit) - Beginning of Year | <u>(378,569)</u> | <u>137,490</u> | <u>(241,079)</u> |
| Retained Earnings (Deficit) - End of Year | <u>\$ (275,681)</u> | <u>\$ 211,210</u> | <u>\$ (64,471)</u> |

Village of Grass Lake
Combining Statement of Cash Flows
Enterprise Funds
Year Ended February 29, 2004

| | Sewer | Water | Total |
|---|-------------------|------------------|-------------------|
| Cash Flows From Operating Activities: | | | |
| Net Income (loss) | \$ 102,888 | \$ 73,720 | \$ 176,608 |
| Adjustment to reconcile net income to cash provided by operating activities | | | |
| Depreciation | 62,787 | 48,143 | 110,930 |
| Change in accounts receivable | (2,900) | (2,649) | (5,549) |
| Change in inventories | 33,746 | - | 33,746 |
| Change in accounts payable | 727 | 1,528 | 2,255 |
| Net cash provided by operating activities | <u>197,248</u> | <u>120,742</u> | <u>317,990</u> |
| Cash Flows From Noncapital Financing Activities: | | | |
| Transfers in | <u>45,000</u> | <u>-</u> | <u>45,000</u> |
| Cash Flows From Capital and Related Financing activities | | | |
| Collections on advance to other funds | 7,296 | - | 7,296 |
| Principal payment on bonds | (125,000) | (90,000) | (215,000) |
| Interest paid on bonds | (33,400) | (25,552) | (58,952) |
| Collections on special assessments | 41,467 | - | 41,467 |
| Contributions from customers | 27,282 | - | 27,282 |
| Net cash provided by capital and related financing activities | <u>(82,355)</u> | <u>(115,552)</u> | <u>(197,907)</u> |
| Cash Flows From Investing Activities: | | | |
| Interest received on investments | <u>4,387</u> | <u>711</u> | <u>5,098</u> |
| Net Increase in Cash and Cash Equivalents | 164,280 | 5,901 | 170,181 |
| Cash and Cash Equivalents - Beginning of Year | <u>238,687</u> | <u>46,672</u> | <u>285,359</u> |
| Cash and Cash Equivalents - End of Year | <u>\$ 402,967</u> | <u>\$ 52,573</u> | <u>\$ 455,540</u> |

Village of Grass Lake
Combining Balance Sheet
Internal Service Funds
February 29, 2004

| | <u>Assets</u> | <u>Village Hall and Grounds</u> | <u>Equipment Pool</u> | <u>Total</u> |
|--|---|--|----------------------------------|---------------------|
| Current Assets: | | | | |
| Cash | | \$ - | \$ 64,846 | \$ 64,846 |
| Total current assets | | - | 64,846 | 64,846 |
| Property, Plant and Equipment: | | | | |
| Land | | 49,793 | - | 49,793 |
| Buildings | | 156,901 | - | 156,901 |
| Machinery and equipment | | - | 178,362 | 178,362 |
| Less accumulated depreciation | | (55,090) | (154,065) | (209,155) |
| Total property, plant and equipment | | 151,604 | 24,297 | 175,901 |
| Total assets | | \$ 151,604 | \$ 89,143 | \$ 240,747 |
| | <u>Liabilities and Fund Equity</u> | | | |
| Current Liabilities: | | | | |
| Accounts payable | | \$ 411 | \$ 2,204 | \$ 2,615 |
| Interfund payable | | 20,290 | - | 20,290 |
| Advance from other funds, current portion | | 9,126 | - | 9,126 |
| Notes payable, current portion | | 6,345 | 8,123 | 14,468 |
| Total liabilities | | 36,172 | 10,327 | 46,499 |
| Non-Current Liabilities: | | | | |
| Advance from other funds, net of current portion | | 28,076 | - | 28,076 |
| Notes payable, net of current portion | | 41,187 | 7,774 | 48,961 |
| Total non-current liabilities | | 69,263 | 7,774 | 77,037 |
| Total liabilities | | 105,435 | 18,101 | 123,536 |
| Fund Equity: | | | | |
| Retained Earnings: | | | | |
| Unreserved | | 46,169 | 71,042 | 117,211 |
| Total retained earnings | | 46,169 | 71,042 | 117,211 |
| Total liabilities and fund equity | | \$ 151,604 | \$ 89,143 | \$ 240,747 |

Village of Grass Lake
Combining Statement of Revenues, Expenses and
Changes in Retained Earnings
Internal Service Funds
Year Ended February 29, 2004

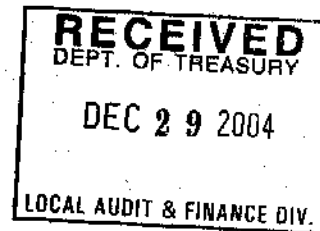
| | <u>Village Hall and Grounds</u> | <u>Equipment Pool</u> | <u>Total</u> |
|--|-------------------------------------|---------------------------|-------------------|
| Operating Revenues: | | | |
| Rental income | \$ 27,735 | \$ 46,081 | \$ 73,816 |
| Total operating revenue | <u>27,735</u> | <u>46,081</u> | <u>73,816</u> |
| Operating Expenses: | <u>21,876</u> | <u>31,314</u> | <u>53,190</u> |
| Operating Loss | <u>5,859</u> | <u>14,767</u> | <u>20,626</u> |
| Nonoperating Revenues (Expenses) | | | |
| Interest expense | (6,011) | (90) | (6,101) |
| Operating transfer in | 2,000 | - | 2,000 |
| Operating transfer out | - | (12,000) | (12,000) |
| Total nonoperating revenues (expenses) | <u>(4,011)</u> | <u>(12,090)</u> | <u>(16,101)</u> |
| Net Income | <u>1,848</u> | <u>2,677</u> | <u>4,525</u> |
| Retained Earnings - Beginning of Year | <u>44,321</u> | <u>68,365</u> | <u>112,686</u> |
| Retained Earnings - End of Year | <u>\$ 46,169</u> | <u>\$ 71,042</u> | <u>\$ 117,211</u> |

Village of Grass Lake
Combining Statement of Cash Flows
Internal Service Funds
Year Ended February 29, 2004

| | Building and Grounds Maintenance | Equipment Pool | Total |
|--|---|-------------------|------------------|
| Cash Flows From Operating Activities: | | | |
| Net Income (loss) | \$ 1,848 | \$ 2,677 | \$ 4,525 |
| Adjustment to reconcile net income to cash provided by operating activities | | | |
| Depreciation | 7,870 | 13,545 | 21,415 |
| Change in accounts payable | 98 | 1,261 | 1,359 |
| Interfund payable | 5,972 | - | 5,972 |
| Net cash provided by operating activities | <u>15,788</u> | <u>17,483</u> | <u>33,271</u> |
| Cash Flows From Noncapital Financing Activities: | | | |
| Transfers in | 2,000 | - | 2,000 |
| Transfers out | - | (12,000) | (12,000) |
| Net cash provided by noncapital financing activities | <u>2,000</u> | <u>(12,000)</u> | <u>(10,000)</u> |
| Cash Flows From Capital and Related Financing activities | | | |
| Payment on advance to other funds | (7,296) | - | (7,296) |
| Proceeds from note payable | - | 24,299 | 24,299 |
| Principal payment on notes | (4,481) | (8,402) | (12,883) |
| Interest expense | (6,011) | (90) | (6,101) |
| Net cash provided by capital and related financing activities | <u>(17,788)</u> | <u>15,807</u> | <u>(1,981)</u> |
| Net Increase in Cash and Cash Equivalents | - | 21,290 | 21,290 |
| Cash and Cash Equivalents - Beginning of Year | - | 43,556 | 43,556 |
| Cash and Cash Equivalents - End of Year | <u>\$ -</u> | <u>\$ 64,846</u> | <u>\$ 64,846</u> |



August 24, 2004



Members of Village Council
Village of Grass Lake
Jackson, Michigan

We have audited the financial statements of the Village of Grass Lake for the year ended February 29, 2004, and have issued our report thereon dated August 24, 2004. In planning and performing our audit of the general purpose financial statements of the Village, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control.

The Management of the Village of Grass Lake is responsible for establishing and maintaining effective internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control. The objectives of internal control are to provide the Council with a reasonable but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with the Council's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of the inherent limitations in any system of internal control, errors and irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluations made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion of the system of internal accounting control of the Village taken as a whole. However, our study and evaluation disclosed no conditions that we believe to be a material weakness.

Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of the Village. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

WILLIS & JURASEK, P.C.

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Fax Number: (517) 788-9872
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Web site: www.willispc.com

Our Responsibility under Generally Accepted Auditing Standards (Continued)

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Village's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Village are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the current year. We noted no transactions entered into by the Village during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There was no material estimates recorded in the current year.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Village's financial reporting process (that is, cause future financial statements to be materially misstated). We had to do a large amount of journal entries at year-end that did have a material affect on the financial statements of the Village.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Village's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Village Council and management of the Village and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Willis & Jurasek

Willis & Jurasek, P.C.

Audit Adjustments

As noted above, several journal entries were needed at year end. We made a total of 28 journal entries. Several involved cash. We would suggest that different procedures be put in place to monitor the cash balances. Some of the entries involved duplicate recording of some items that should be caught during the year with the bank reconciliation processes that are needed.

Bank Reconciliation

The bank reconciliations do not appear to be compared back to the general ledger during the year. As part of the overall process the bank balances need to be compared to the general ledger accounts and discrepancies corrected monthly. You may consider realigning the bank accounts used and the manner in which some of the general ledger coding effects these balances.

Fixed Assets

We recommend you set up new accounts within your general ledger, one for depreciable fixed assets and one for non-depreciable fixed assets. This would allow easy monitoring and updating of your schedules and will become more important with the implementation of GASB 34 reporting requirements.

GASB 34

The Governmental Accounting Standards Board has issued Statement 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. The new reporting model will significantly impact government's financial statement presentation. Under the new reporting model, general purpose governments must present the following basic financial statements and required supplementary information:

- Management's discussion and analysis (MD&A).
- Government-wide financial statements.
- Fund financial statements.
- Notes to the financial statements.
- Required supplementary information, including budgetary comparison schedules and other data required by previous GASB pronouncements.

The MD&A is a narrative report prepared in an easy-to-read format by the government's financial manager. It should:

- Introduce the basic financial statements.
- Provide an analytical overview of the government's financial manager's knowledge of the transactions, events, and conditions reflected in the financial report and the fiscal policies that control the government's operations.

GASB No. 34 requires MD&A to include, at a minimum:

- A brief discussion of the relationships of the basic financial statements to each other and the major differences in the information provided in each.
- A comparison in condensed form of information presented in the government-wide financial statements for the current and prior year.
- An analysis of significant changes that occurred in individual funds and any limitations that might affect the availability of fund resources in the future.
- An analysis of significant budget variances (original vs. final budget and final budget vs. actual results) for the general fund or its equivalent, including reasons for those variances that may affect future services or liquidity.

Comment and Recommendations

Page 2

GASB 34 (Continued)

- A summary of significant capital asset and long-term debt activity with a discussion of commitments and limitations that may affect future financing of planned facilities or services.
- A description of facts, conditions, or decisions of which management was aware on or before the audit report date that are expected to have a significant impact on financial position or results of operations after the reporting date.

The implementation date for the new reporting model is in phases depending on the government's revenues. For the Village, the new standard will be effective for the year ended February 28, 2005. The Village needs to begin planning for the new standard to ensure a smooth transition.

Budget

Public Act 621 requires budget amendments prior to actual expenditures being made if expenditures exceed budgeted amounts. During the year, the Village had certain actual amounts that exceeded the budget at year-end. While the amounts were minor in nature, procedures should be put in place to amend the budget as needed during the year when expenditures exceed the budget. This may require budget amendments to be made periodically during the fiscal year.